



# **Internal Revenue Service**

DEPARTMENT OF THE TREASURY

## **Foreign Account Tax Compliance Act (FATCA) *IDES Implementation Update***



**April 2015**

# **IDES Implementation Developments**

# The IRS has made significant progress in developing and deploying technology capabilities for FATCA

- ▶ As part of FATCA implementation, the IRS has delivered, or is working to deliver the following:
  - An electronic FATCA Registration system to facilitate Financial Institution (FI) registration and ongoing account management
  - Publication of a list of registered, approved FIs to inform withholding activities
  - An agreed upon electronic format for reporting
  - The International Data Exchange Service (IDES), a transmission mechanism that enables 100% electronic, secure transmission of account reporting
  - Data validation, authentication, and non-repudiation capabilities, as well as the ability to generate notifications
- ▶ The IRS is also working closely with Model 1 Intergovernmental Agreement (IGA) partners to conduct safeguard evaluations in preparation for bilateral exchanges

# The IRS has published and deployed an electronic schema for Form 8966 reporting

- ▶ The IRS has adopted Extensible Markup Language (XML) as the official electronic format by which FATCA information reporting will be exchanged
- ▶ The Intergovernmental FATCA XML Schema v1.1 is based upon existing XML standards outlined by the OECD and the EU and reflects the concept of common reporting standards endorsed by both the G20 and the OECD
- ▶ The IRS collaborated with industry representatives from OECD's Business Industry Advisory Committee, the FATCA multilateral working group, and members of the broader financial industry to develop and refine this XML schema
- ▶ The Intergovernmental FATCA XML Schema v1.1 that supports Tax Year 2014 reporting is now final and is ready for use; This schema is available to the public via IRS.gov
- ▶ The IRS has also developed and posted a corresponding user guide for financial institutions and tax administrations who will use this schema for reporting
- ▶ The IRS is currently making minor modifications to the Tax Year 2015 schema to address stakeholder feedback and better align to the Common Reporting Standards; changes include the addition of a nil reporting field, an attribute to describe an account number, an element to indicate an account is closed, and a limit on the length of string fields

# IDES development work began in December 2013 upon finalization of the IDES business requirements

## IDES Release Timing

- ▶ The IRS has aligned IDES releases to the timing of reporting as set forth in the FATCA regulations and IGAs
- ▶ The initial IDES release has been divided into two components:
  - **Drop 1 (Jan. 2015)**: This drop delivers functionality for FIs to provide Non-IGA and Model 2 IGAs reporting directly to the IRS; It also includes functionality for HCTAs to provide Model 1 IGA reporting to the IRS, although this reporting won't be required until later in the year
  - **Drop 2 (by Aug. 2015)**: This drop will deliver functionality for the U.S. to provide reporting to HCTAs as required under Model 1 Reciprocal IGAs

# IDES development has progressed as planned, meeting its target January 2015 deployment date for public enrollment

- ▶ **IDES Contract Award:** In August 2014, the IRS awarded a contract for the development and operation of IDES to a vendor team led by Carahsoft as the prime contractor; The vendor team includes the following parties:
  - Axway (managed file transfer)
  - Unisys (integration)
  - Dakota Performance Solutions (onboarding and help desk support)
  
- ▶ **IDES Production and Testing:**
  - IDES went into Production on January 12, 2015 and both the Enrollment and Gateway sites are up and running
  - The IRS has now held three testing windows where filers who had previously enrolled in IDES could submit test data files to the IRS and receive back a file-level Notification on their transmission
  - One additional testing window will be the week of June 1st ahead of the late June extended deadline for filings by Model 2 and non-IGA jurisdictions
  - At least one more testing window will be held during the summer ahead of the Model 1 data exchange deadline of September 30.
  
- ▶ **IDES Enrollment:** The IDES enrollment system is up and running; Users can enroll once they've obtained their digital certificate. The IDES Support site also has helpful information for users and links to the IDES Help Desk for questions about the use of IDES.

# The IRS has published a number of key IDES resources on IRS.gov

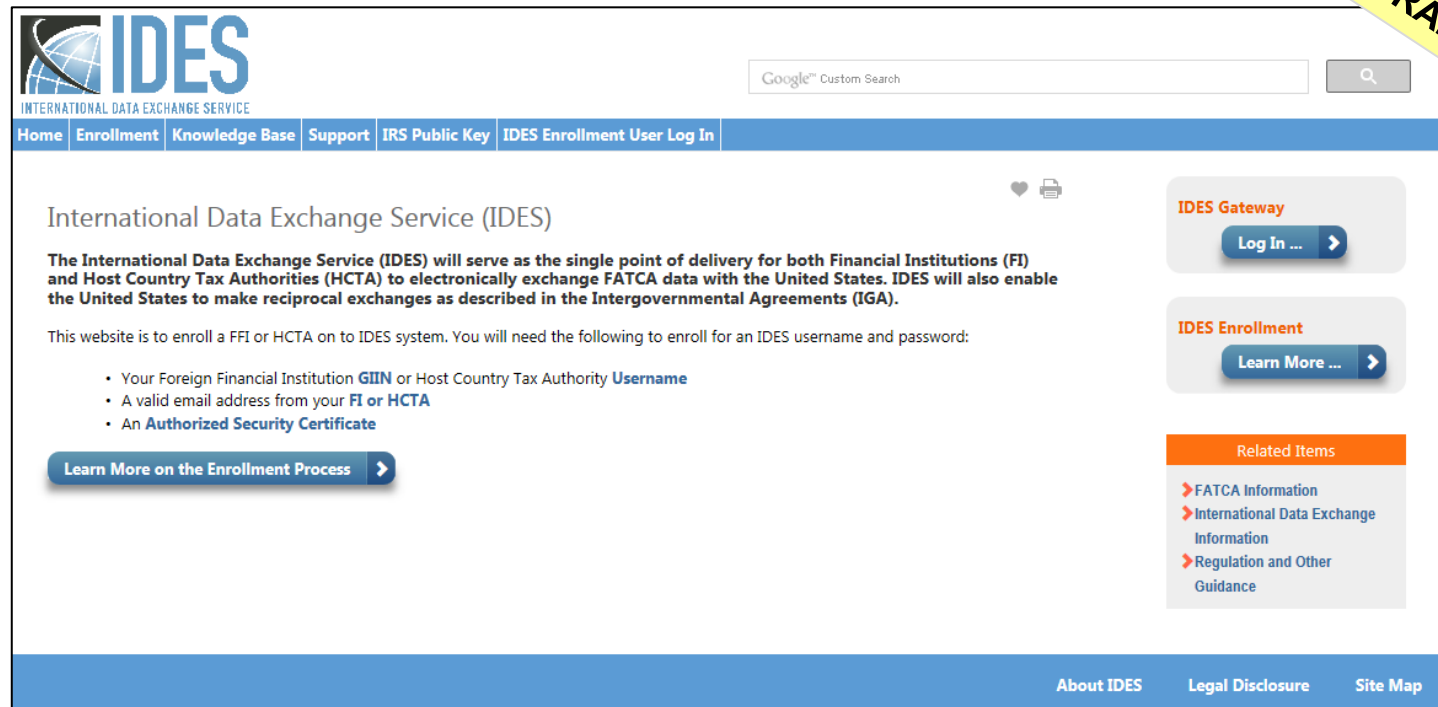
- ▶ **IDES Frequently Asked Questions (FAQs)**: An initial set of IDES FAQs surrounding system availability and design, data format and structure, data transmission, data encryption and security, and other general inquiries has been published
- ▶ **User Guides**:
  - IDES User Guide: Draft IDES User Guide was published to IRS.gov in December 2014, with additional content having been added several times since
  - The IRS has also developed and published user guides for the FATCA Metadata XML Schema and for the file level Notifications issued by the IRS in response to submission of FATCA reporting files.
  - The IRS has recently posted a troubleshooting guide outlining several issues that have impacted files during the recent testing windows and offering suggestions of things that can resolve the issue
  - IRS has posted several sample files with code snippets to assist in the preparation of FATCA data packets for transmission and for decrypting IRS Notifications on the GitHub code-sharing site
- ▶ **Certificate Authorities**:
  - The IRS conducted a review of available Certificate Authorities and published the names of seven IRS approved Certificate Authorities to IRS.gov
  - FIs and HCTAs must obtain the required certificates prior to beginning the enrollment process

# IDES User Experience



The IDES Enrollment site is a secure web-based system that enables FIs and HCTAs to sign up for IDES and set user preferences

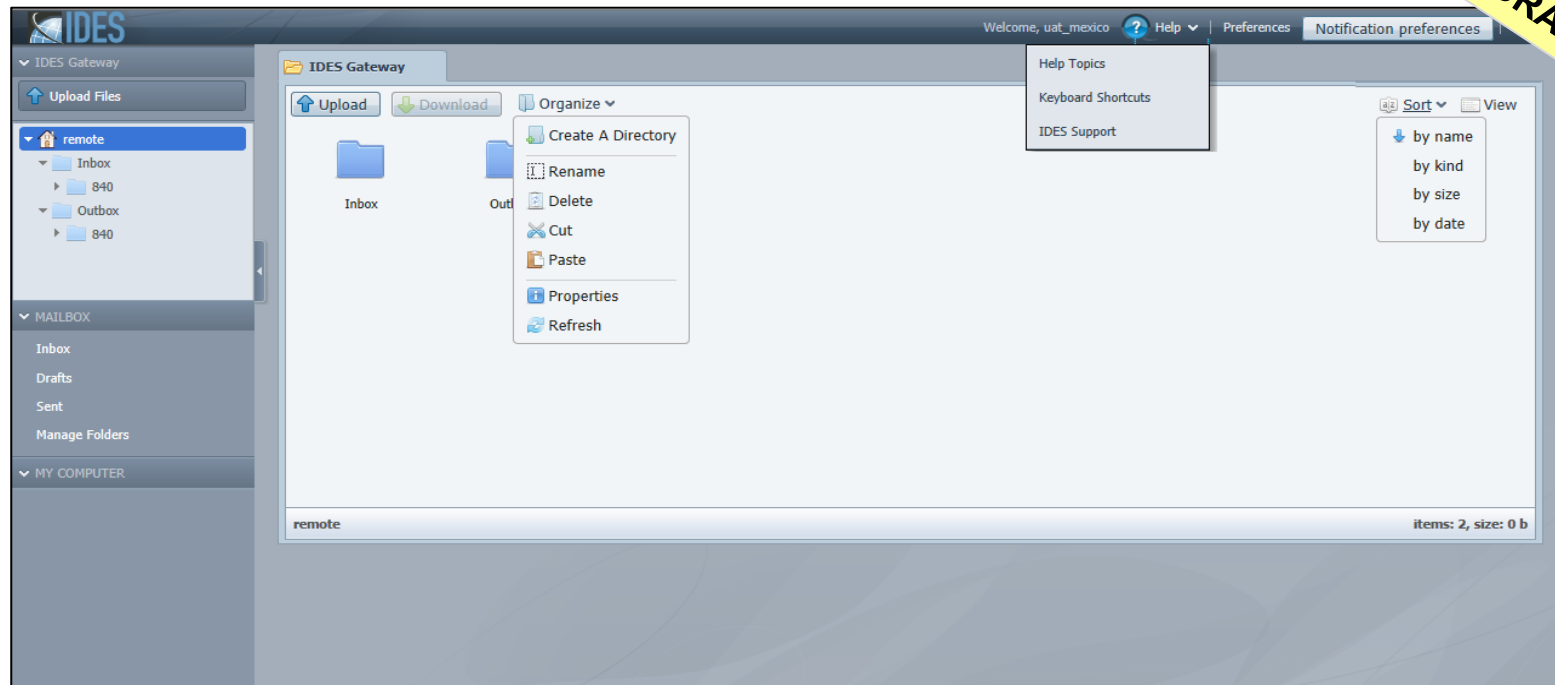
## IDES Enrollment Home Page



- Users can navigate from the IDES Enrollment Home Page to initiate the enrollment process, manage approved users, select alert preferences, create metadata files, and update certificate information

The IDES Gateway is a web application that allows enrolled HCTAs and FIs to securely upload and download FATCA data over the internet

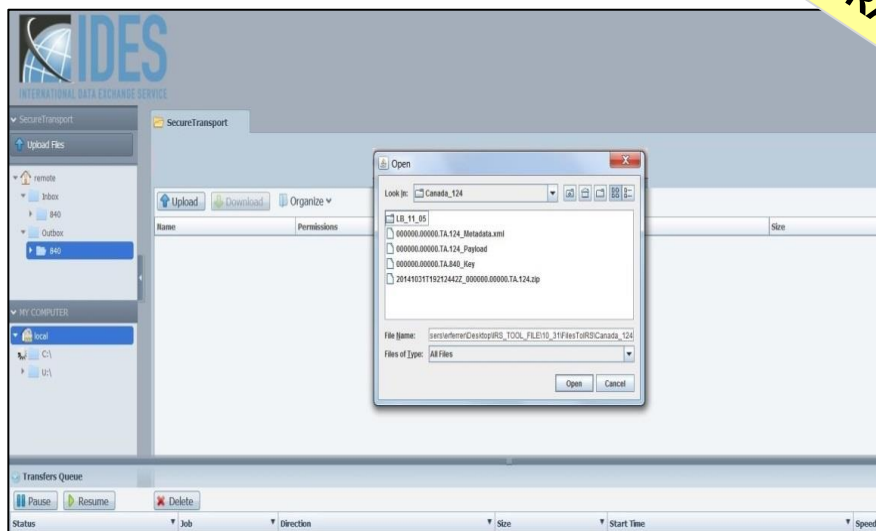
### IDES Gateway Home Screen



- ▶ Once enrolled in IDES, users can access the IDES Gateway to send and receive data using both HTTPS and SFTP protocols
- ▶ IDES automatically associates a user type (FI or HCTA) and IGA Model, which will regulate user access levels and allowable transaction types

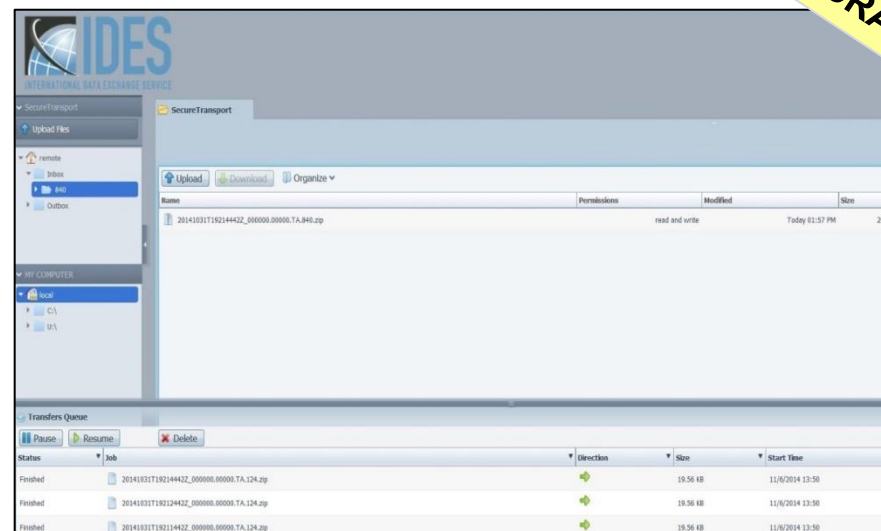
# FATCA reporting can be transmitted and received manually using the IDES Gateway upload and download features through a secure web browser

## IDES Select and Upload File Screen



- ▶ The IDES Gateway homepage shows access to an Outbox folder containing files to the U.S. or recipient available for upload
- ▶ After the file transfer process begins and the uploaded files are transmitted from the Outbox, the status appears at the bottom of the screen in the Transfers Queue

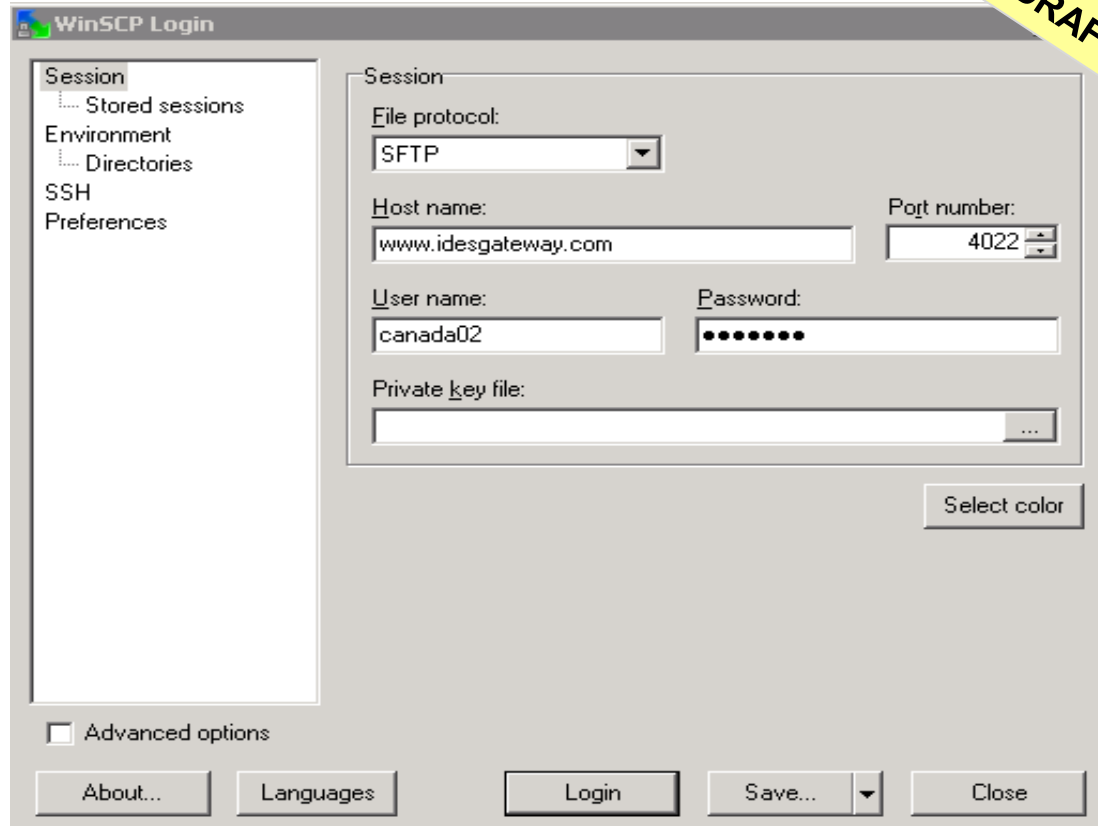
## IDES File Download Screen



- ▶ Recipients will receive an email alert when files are available to download
- ▶ FIs under Model 1B transmit files to their HCTA, who use the Pending folder in their Inbox to review the files and determine whether to approve and send to the IRS or reject and have the files deleted automatically

The IDES Gateway also allows FATCA data to be reported via an automated process through SFTP for scheduled bulk file transmissions

### Sample IDES SFTP Connection

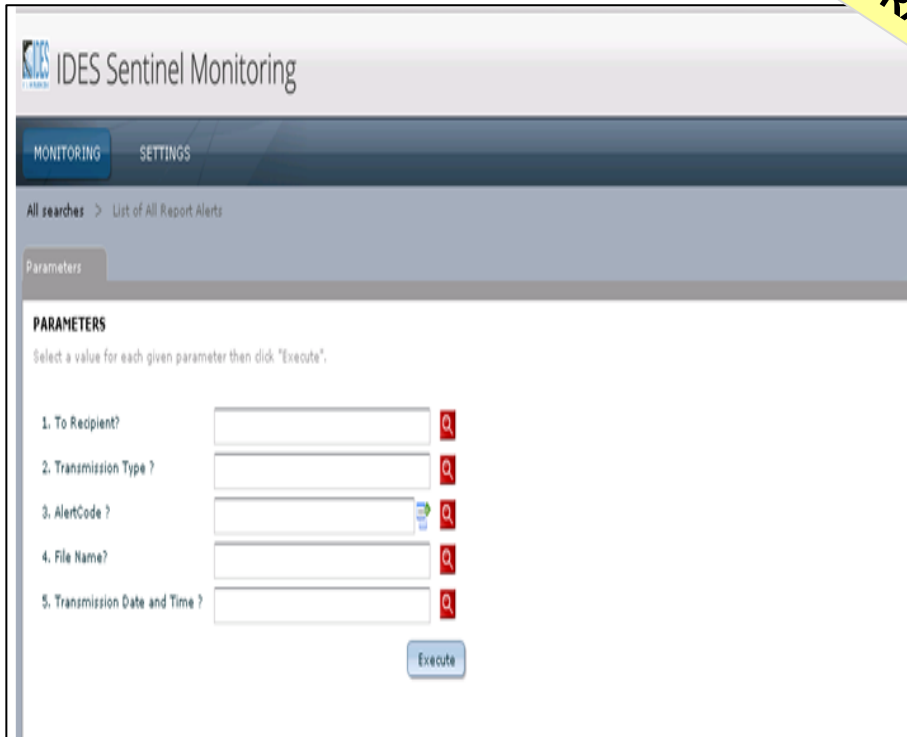


A screenshot of the WinSCP Login dialog box. The dialog has a title bar 'WinSCP Login'. On the left is a sidebar with a tree view containing 'Session' (selected), 'Stored sessions', 'Environment', 'Directories', 'SSH', and 'Preferences'. The main area is titled 'Session' and contains the following fields: 'File protocol:' with a dropdown menu set to 'SFTP'; 'Host name:' with a text box containing 'www.idesgateway.com'; 'Port number:' with a spinner box set to '4022'; 'User name:' with a text box containing 'canada02'; 'Password:' with a masked text box showing eight dots; and 'Private key file:' with an empty text box and a browse button (...). There is a 'Select color' button at the bottom right of the main area. At the bottom of the dialog are five buttons: 'About...', 'Languages', 'Login', 'Save...' (with a dropdown arrow), and 'Close'. A checkbox labeled 'Advanced options' is located above the 'About...' button. A yellow 'DRAFT' label is placed diagonally in the top right corner of the dialog box.

- ▶ The IDES SFTP Server provides users with secure access to manage and transfer files between hosts over a network

# IDES Sentinel Web Monitoring allows users to perform predefined queries and access informational reports on IDES file transmissions

## IDES Sentinel Search Parameters



The screenshot shows the 'IDES Sentinel Monitoring' web application. It has a navigation bar with 'MONITORING' and 'SETTINGS' tabs. Below the navigation bar, there's a breadcrumb trail: 'All searches > List of All Report Alerts'. The main content area is titled 'PARAMETERS' and includes a sub-header 'Select a value for each given parameter then click "Execute"'. There are five input fields with labels: '1. To Recipient?', '2. Transmission Type?', '3. AlertCode?', '4. File Name?', and '5. Transmission Date and Time?'. Each field has a red search icon to its right. At the bottom right of the form is an 'Execute' button.

DRAFT

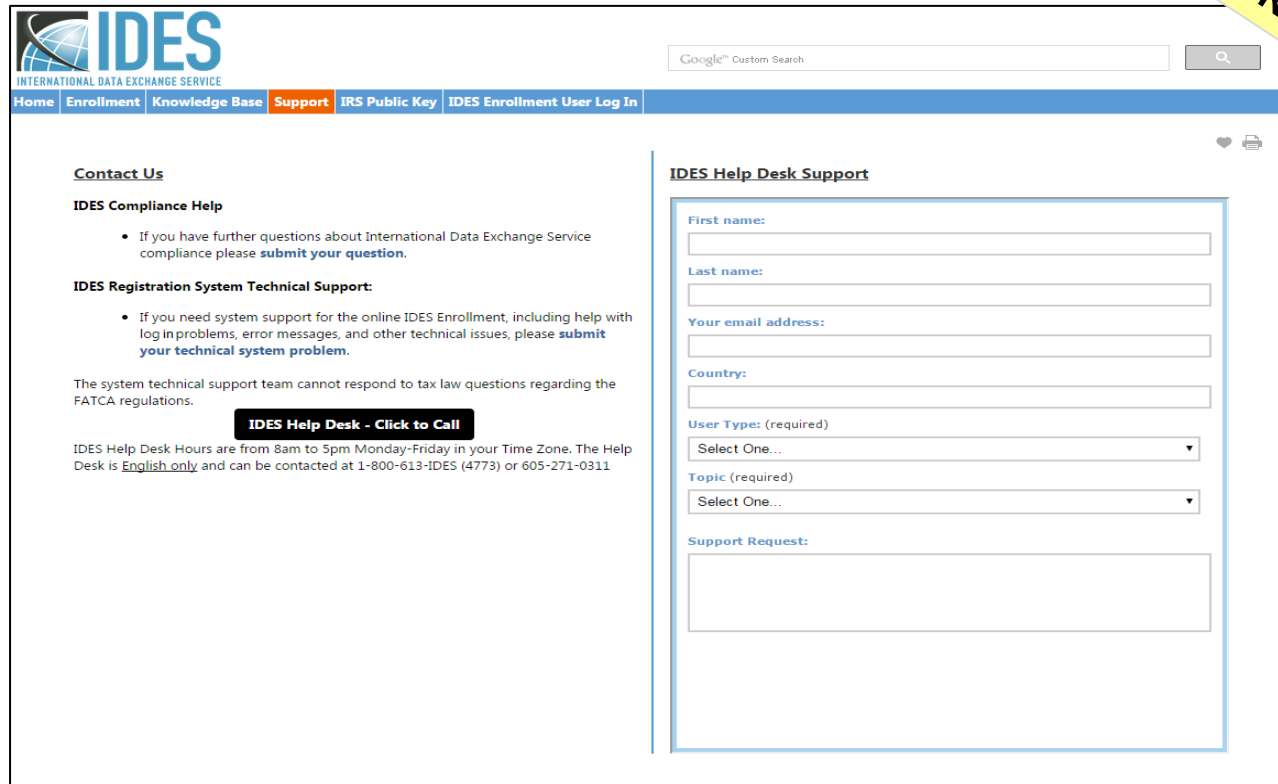
## IDES Sentinel Reports

Report / Query	Description
List of All Report Alerts	Shows all alerts for the FI or HCTA.
List of Failed Transmissions	Shows all failed uploads and downloads for the FI or HCTA.
List of File Transmission Not Downloaded Within 7 Days	Shows all expired file uploads for the FI or HCTA.
List of Transmission Downloads	Lists all successful downloads for the FI or HCTA.
List of Transmission Uploads	Lists all successful uploads for the FI or HCTA.
List of File Transmissions To Be Reviewed (Model 1 Option 2 only)	Shows all file uploads for the FI that are waiting for the HCTA to review.

- ▶ Sentinel will store multiple historical data records that describe the end-to-end flow of every file transferred using IDES; users will be able to search, filter, aggregate, and view this data
- ▶ FI and HCTA users can view the alert history of all uploaded files and alerts that pertain to their user account

**IDES users can contact the IDES help desk support team via an online form, or by calling the IDES help desk**

## IDES Support Page



The screenshot shows the IDES Support Page. At the top left is the IDES logo (International Data Exchange Service). To the right is a Google Custom Search bar. Below the logo is a navigation bar with links: Home, Enrollment, Knowledge Base, Support (highlighted), IRS Public Key, and IDES Enrollment User Log In. The main content area is divided into two columns. The left column contains 'Contact Us' information, including 'IDES Compliance Help' and 'IDES Registration System Technical Support' with bullet points. It also includes a button 'IDES Help Desk - Click to Call' and a paragraph about help desk hours. The right column is titled 'IDES Help Desk Support' and contains a form with fields for First name, Last name, Your email address, Country, User Type (required), Topic (required), and a large text area for Support Request. A yellow 'DRAFT' label is placed over the top right corner of the form area.

**IDES**  
INTERNATIONAL DATA EXCHANGE SERVICE

Google™ Custom Search

Home Enrollment Knowledge Base **Support** IRS Public Key IDES Enrollment User Log In

Contact Us

**IDES Compliance Help**

- If you have further questions about International Data Exchange Service compliance please [submit your question](#).

**IDES Registration System Technical Support:**

- If you need system support for the online IDES Enrollment, including help with log in problems, error messages, and other technical issues, please [submit your technical system problem](#).

The system technical support team cannot respond to tax law questions regarding the FATCA regulations.

**IDES Help Desk - Click to Call**

IDES Help Desk Hours are from 8am to 5pm Monday-Friday in your Time Zone. The Help Desk is [English only](#) and can be contacted at 1-800-613-IDES (4773) or 605-271-0311

**IDES Help Desk Support**

First name:

Last name:

Your email address:

Country:

User Type: (required)  
Select One...

Topic: (required)  
Select One...

Support Request:

- ▶ The IDES Support Page offers quick access to personalized compliance support, technical support, and help desk support via email and phone

## Appendix: IDES Background and Scope

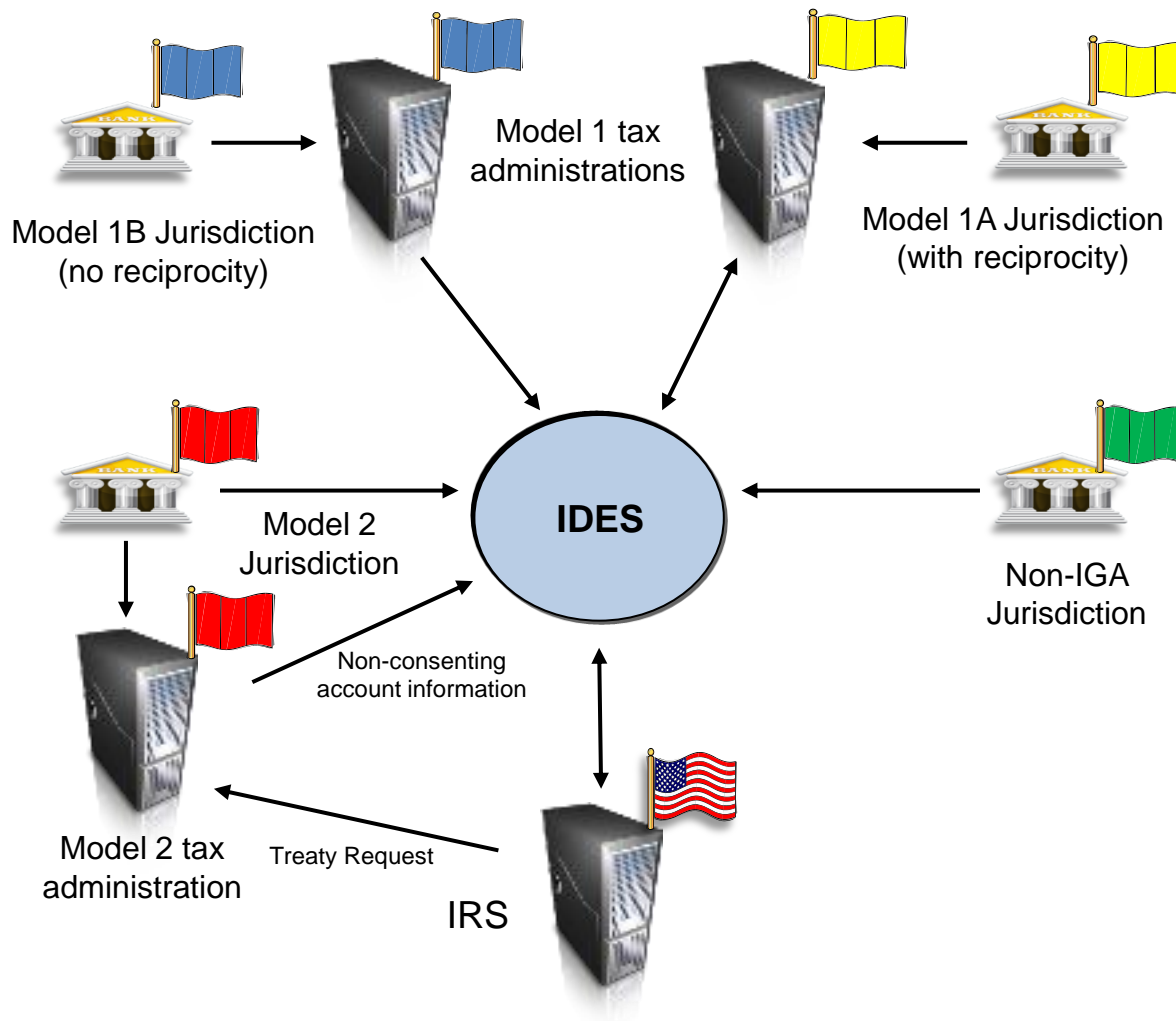
# The FATCA regulations and IGAs define specific reporting and exchange requirements that must be addressed by IDES

## Key Considerations for IDES

- ▶ Under all Model 1 Intergovernmental Agreements (IGAs), data will be collected by the host country tax administration (HCTA) and delivered to the residence country tax administration (RCTA)
- ▶ Under a reciprocal Model 1A IGA, data will be collected by each country and transmitted in a two-way transmission process
- ▶ Under a Model 2 IGA, most data will be delivered by the financial institution directly to the RCTA, but data on non-consenting accountholders will be collected by the HCTA and delivered to the RCTA after a treaty request
- ▶ In a non-IGA jurisdiction, all data will be delivered by the financial institution directly to the RCTA



# IDES must support the secure flow of data through various channels



## Description

- ▶ IRS will collect information from various sources by providing an access point through which data would be transmitted
- ▶ IDES must have the capacity to properly route data between senders and recipients of data
- ▶ Both the data files and the transmission itself must be secured with a high level of encryption

## IDES must satisfy three basic criteria

Criteria	Definition
<b>Cybersecurity</b>	<ul style="list-style-type: none"><li>▶ Ensure protection of data throughout the transfer process, including:<ul style="list-style-type: none"><li>– Use of encryption to prevent unauthorized access to data</li><li>– Acceptance of data from authorized submitters only</li><li>– Delivery of data to authorized recipients only</li><li>– Maintenance of data integrity through non-repudiation of the source</li></ul></li></ul>
<b>Accessibility</b>	<ul style="list-style-type: none"><li>▶ Provide overall accessibility, including:<ul style="list-style-type: none"><li>– Availability of IDES to authorized users</li><li>– Ease of use of exchange functionality</li></ul></li></ul>
<b>Burden on Tax Administration</b>	<ul style="list-style-type: none"><li>▶ Reduce administrative and cost burdens on participating agencies through:<ul style="list-style-type: none"><li>– Compliance of exchange approach with local regulations governing electronic exchanges of tax data</li><li>– Low implementation costs through use of existing technological resources</li><li>– Ability to match technology capability and support resources to amounts and frequency of data transfers by various tax administrations</li></ul></li></ul>

## There are two widely accepted methods for transmission that meet all three evaluation criteria

### Browser-Based


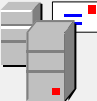


- ▶ Users access IDES at will, via a URL, and log into the service with a user name and password to upload or download files
- ▶ This requires no additional software and utilizes web based file transfer capabilities present in all web browsers

### Scheduled Bulk Transfer

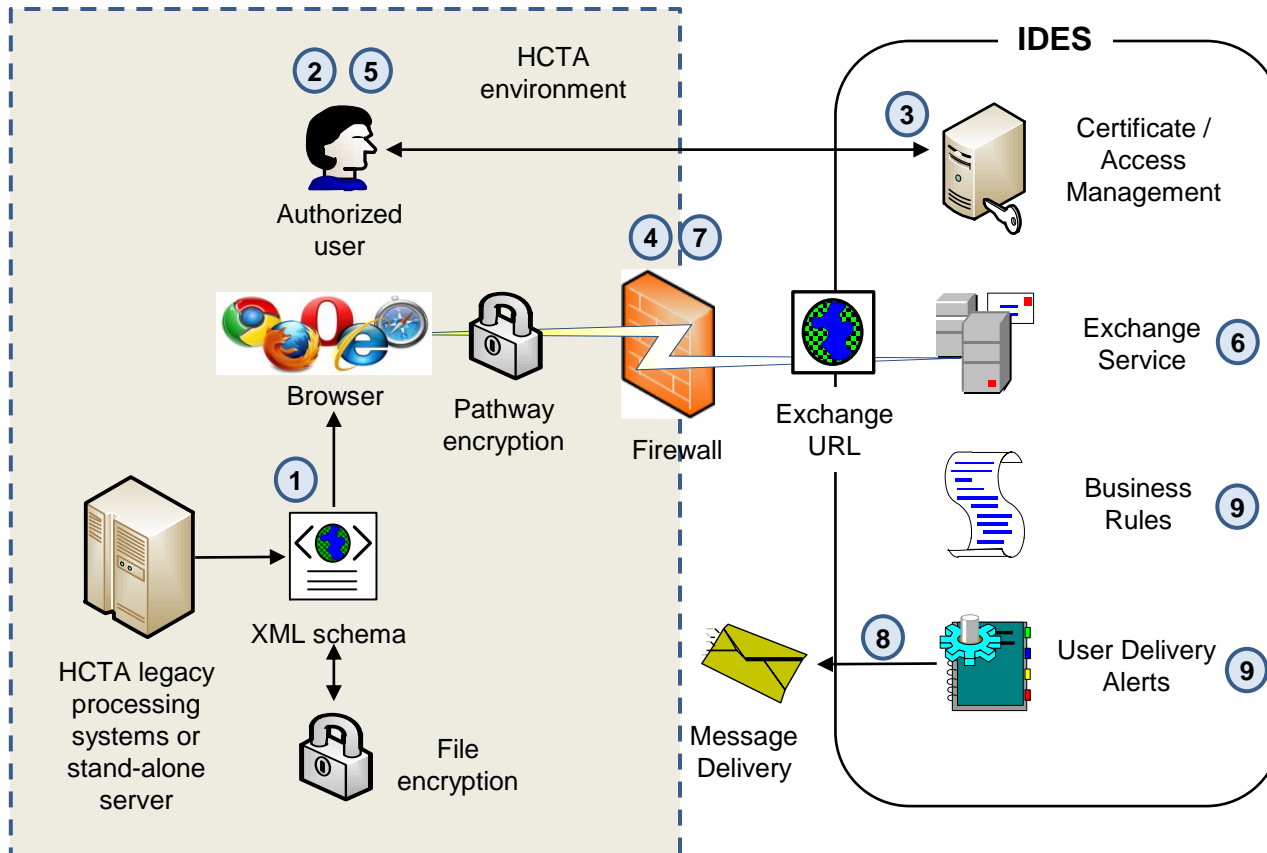
- ▶ Users establish secure channels through the Internet to IDES, and tax data is automatically delivered securely and reliably at scheduled times
- ▶ This requires bulk transfer software, which also can automatically split files to accommodate file size limits
- ▶ This allows for reliable completion of transmission regardless of network interruptions and temporary loss of service

**IDES should easily accommodate both transmission methods**

# IDES requires four capabilities to support browser-based and scheduled bulk transfer methods

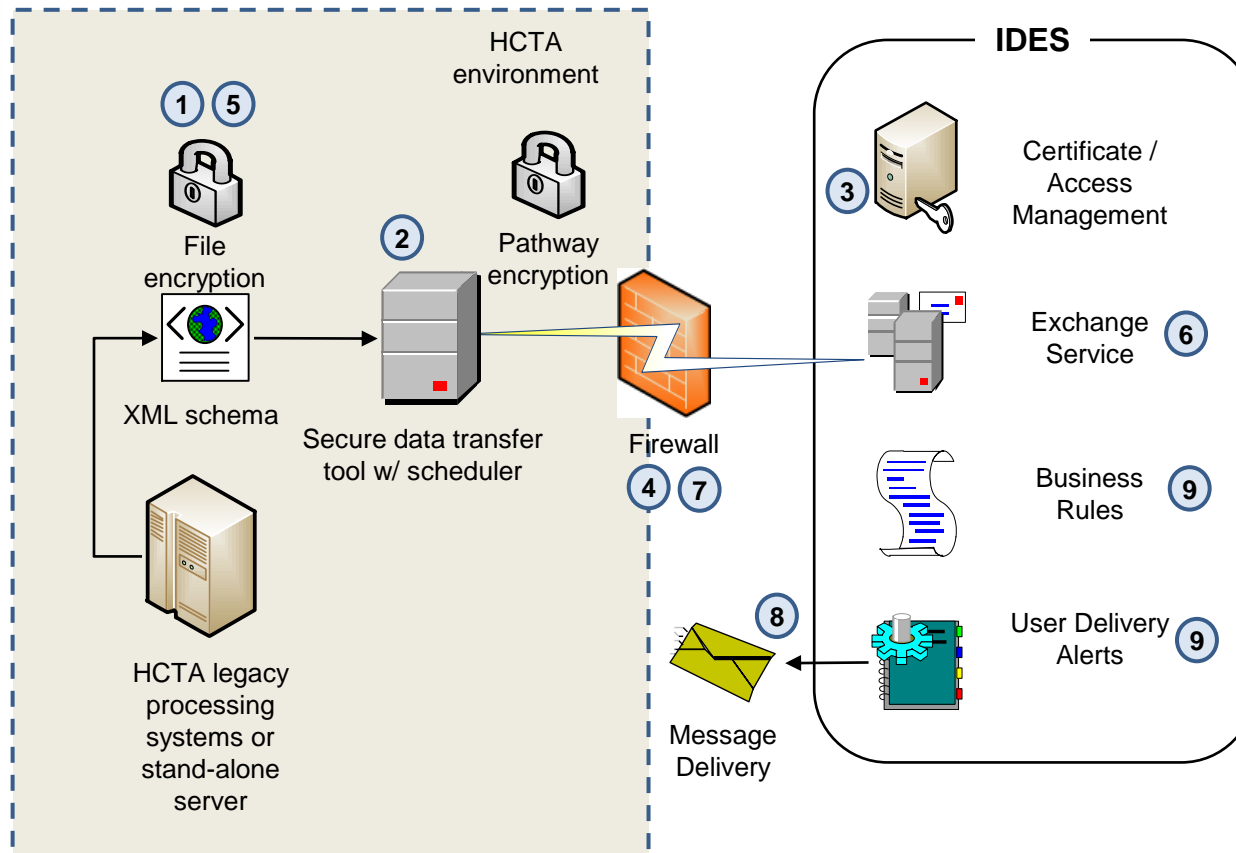
IDES Capability	Description
 Certificate / Access Management	<ul style="list-style-type: none"><li>▶ Manages encryption process and ensures proper encryption of transmission pathways and data</li><li>▶ Manages user access (e.g., add new users, remove old users, change passwords)</li></ul>
 Exchange Service	<ul style="list-style-type: none"><li>▶ Provides short-term, temporary storage of encrypted data during transmission, until a file is delivered to the designated recipient</li><li>▶ Exchange Service is not intended to be a data repository; files will be deleted after a designated time</li></ul>
 Business Rules	<ul style="list-style-type: none"><li>▶ Provides rules to determine the proper routing/treatment of files based upon jurisdiction and IGA model type, in accordance with the relevant IGA and CAA</li></ul>
 User Delivery Alerts	<ul style="list-style-type: none"><li>▶ Provides alerts to the file sender to indicate transmission status (e.g., delivery status)</li><li>▶ Alerts file recipient that a file is available for retrieval (browser-based), or that a file was successfully delivered to the recipient (scheduled bulk transfer)</li></ul>

# IDES will provide these four capabilities to support browser-based data transmission from HCTA's legacy systems or stand-alone server



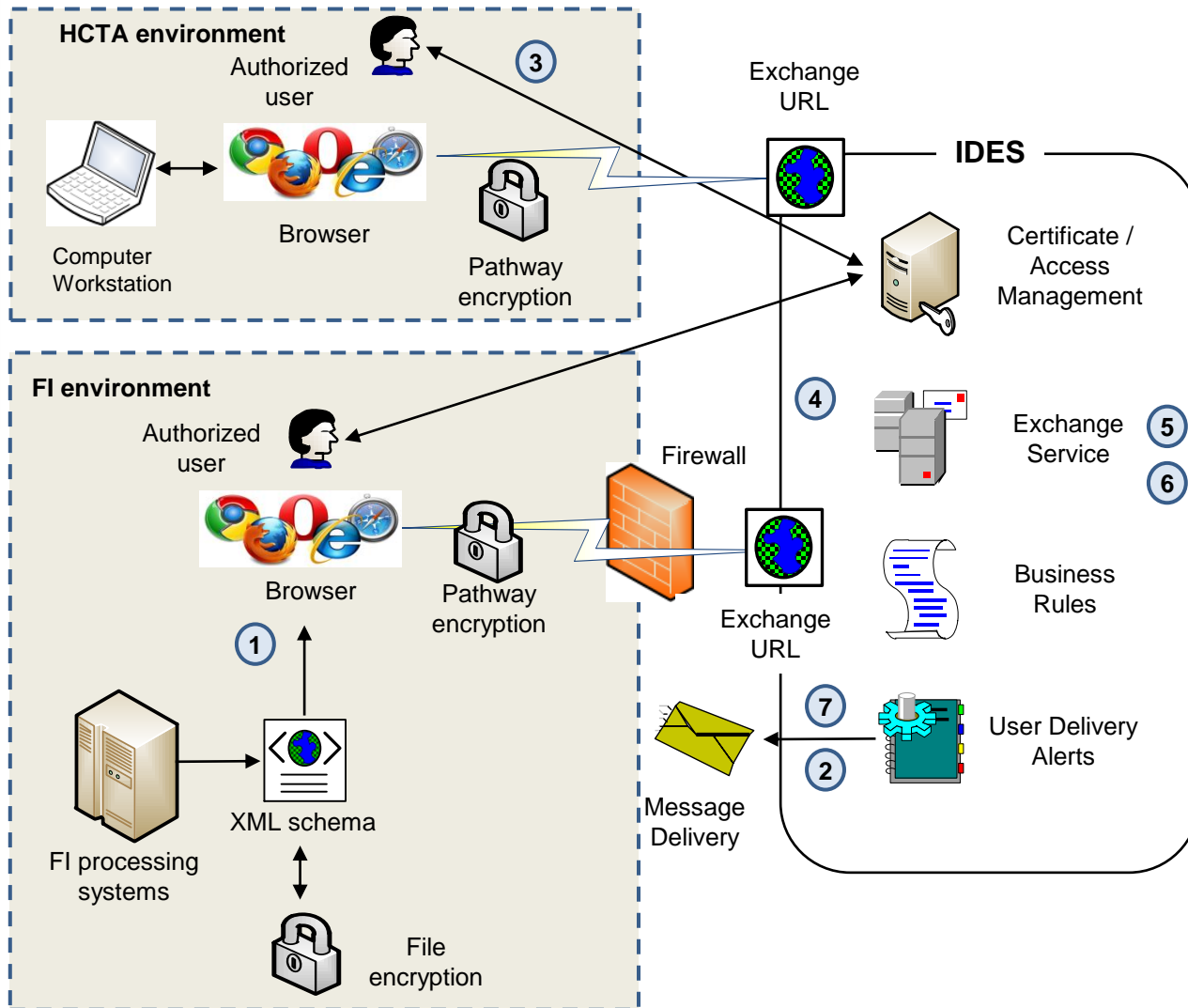
1. Sending organization produces and formats outgoing data file using FATCA XML schema
2. Authorized User accesses IDES using URL and logs in with User Name/Password
3. **Certificate/Access Management** recognizes user, and provides encryption key to user
4. **Exchange Service** and browser implement an encrypted link and coordinate firewall settings to enhance security
5. Authorized User selects the data file, encrypts with second key, and uploads file to IDES using basic browser operations
6. If connection is interrupted or lost, the **Exchange Service** can recover and continue transfer from point of failure (within limits)
7. When transfer is complete the **Exchange Service** terminates the connection with the browser
8. **Alert Process** alerts user of receipt /rejection of transmitted file by **Exchange Service**
9. Using **Business Rules**, **Alert Process** alerts appropriate recipient of Incoming File

# IDES will also support scheduled bulk transfers from HCTA's legacy systems or stand-alone server



1. Sending organization uses automated processing system to create outgoing data file using FATCA XML schema
2. Secure Data Transfer Tool in sending organization infrastructure initiates connection via Internet to IDES at scheduled time
3. **Certificate / Access Management** verifies identity of sending organization
4. **Exchange Service** and Transfer Tool implement an encrypted link and coordinate firewall settings to enhance security
5. Transfer Tool encrypts with second key, and uploads file to IDES using basic browser operations
6. If connection is interrupted or lost, the **Exchange Service** can recover and continue transfer from point of failure (within limits)
7. When transfer is complete the **Exchange Service** terminates the connection with the browser
8. **Alert Process** alerts user of receipt /rejection of transmitted file by **Exchange Service**
9. Using **Business Rules**, **Alert Process** alerts appropriate recipient of Incoming File

# Finally, IDES will also support direct reporting by FIs in Model 1 jurisdictions, subject to certain considerations



1. Sending FI produces, secures and uploads FATCA XML schema in the same manner as shown in the browser-based system but includes keys for both HCTA and recipient (process to be determined)
2. IDES notifies HCTA a file from an FI in their jurisdiction has been uploaded
3. HCTA authorized user can log in to IDES and be recognized by **Certificate/Access Management**
4. Authorized user can :
  - a. Approve file for transmission to recipient by selecting "approve"
  - b. Reject file for transmission back to sending FI, or
  - c. Downloads file for further review
5. If approved , file is set up for delivery to recipient; if rejected ,file is destroyed
6. **Alert Process** alerts all parties (Sending FI, HCTA and Recipient) of either approval or rejection of file for transmission
7. A variation would allow HCTA to have all files be delivered automatically when HCTA takes no action within a period of time after an alert is received. Thus, HCTA would not need to act on each transmission and would only act to stop a particular transmission.